HART SCHAFFNER & MARX

Forty-first Annual Report
November 30, 1951

EXECUTIVE OFFICES

36 South Franklin Street
Chicago 6, Illinois

▼

BOARD OF DIRECTORS

Eugene Bashore	Joel Spitz
Meyer Kestnbaum	Clay E. Steele
Joseph Halle Schaffner	Harry L. Wells

▼

OFFICERS

Meyer Kestnbaum . . . . *President*

Morris Greenberg . . . . *Vice-President*

W. Ray Manning . . . . *Vice-President*

Bernard A. Rittersporn . . . . *Vice-President*

Clay E. Steele . . . . *Secretary and Treasurer*

Thomas E. Davison . . . . *Comptroller*

Morris Neufeld . . . . *Assistant Secretary and Assistant Treasurer*

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TRANSFER AGENTS

The First National Bank of Chicago
Chicago 90, Illinois

Bankers Trust Company
New York 15, N. Y.

REGISTRARS

Continental Illinois National Bank and Trust Company of Chicago
Chicago 90, Illinois

The New York Trust Company
New York 15, N. Y.

HART SCHAFFNER & MARX

CHICAGO NEW YORK

March 3, 1952

To the stockholders:

The fiscal year 1951 covered by the accompanying annual report was characterized by a correction of some of the abnormal conditions which had been experienced during the previous year. The stimulus of rising prices and the fear of shortages which developed after the invasion of Korea continued into the early months of the year. During the month of March raw wool prices reached the highest point in history. Subsequent months witnessed a definite change in buying psychology and a sharp adjustment in the level of prices. Whereas earnings for the first six months were quite satisfactory, the second half of the year produced a very slender margin of profit.

Consolidated sales for the year reached a total of $61,672,439, a slight increase over the sales of $59,257,388 for the previous year. Profits before taxes were higher but net profits after provision for increased taxes amounted to $1,518,752 as compared with $1,647,733 for the previous year.

The company is making extensive use of its credit facilities as is indicated by the indebtedness to banks of $6,500,000 at the end of the fiscal year. By February 1 bank loans had been reduced to $4,500,000, largely because of restricted manufacturing operations for spring and somewhat lower retail inventories. The company continues to face the need for building up its working capital.

Reference has been made from time to time to the substantial portion of the profits of the company that have been applied to the improvement of retail store properties. Among the important projects undertaken during the year just ended were a new Baskin store in Evanston, Illinois which was opened in December 1951 and the completion

of the remodeling of the Wolff store in St. Louis which had been started in the previous year. In St. Louis an old fashioned store has been transformed into an impressive modern retail establishment. As has already been indicated, a major portion of the rehabilitation program has been accomplished and it is anticipated that normal additions during the next few years will not greatly exceed the annual charges for depreciation.

Although it is not possible to forecast the business conditions which will prevail during the next few years we derive confidence from the fact that we enter into what may be a highly competitive period with a greatly improved group of stores. They are bound to be affected by the general fluctuations in retail business but results indicate that there are a number of communities in which our stores have greatly advanced their relative position.

In the fall of 1946 the company sold a total of 6850 shares of its capital stock to a number of its officers and employees at a price of $40 a share. Because of changed conditions the program has not accomplished its objective. After delivering to these employees 2317 shares paid for on an installment basis, the remaining 4533 shares for which payment had not been made were repurchased at the original purchase price and have been returned to the treasury.

Our wholesale bookings for spring are below those for last year and it is clear that operations for the first six months will not be favorable. Under highly competitive conditions higher costs affect margins both at the manufacturing and retail levels. However there are a number of encouraging developments. Prices for the coming season are on a basis that will be more attractive to the consumer. The disposition of retailers to place forward commitments is likely to improve as inventories are liquidated. There is a good possibility that the second half of the year will present a more favorable prospect

Respectfully submitted,

MEYER KESTNBAUM
President

HART SCHAF
AND SUBSIDIA

CONSOLIDATED

As at November

Assets

	1951	1950
Current Assets:		
Cash	$ 2,220,909	$ 1,976,382
U. S. Government securities, at cost	5,000	25,000
Notes and accounts receivable—		
Trade, less allowances for doubtful balances and discounts	6,969,614	7,058,748
Other	325,979	304,596
Inventories—		
Factory inventories at cost or market whichever is lower for current season's goods and estimated realizable value for past seasons' goods; retail stores' inventories at cost or market whichever is lower computed by the retail method	20,827,912	19,774,156
Prepaid rentals, insurance, supplies, etc.	702,085	585,826
Total current assets	$31,051,499	$29,724,708
Other Assets:		
U. S. Government securities (at cost) and cash deposited in escrow for building purposes and deposits under leases	$ 62,500	$ 95,500
Notes of officers and employees for purchase of company's common stock	—	194,224
Sundry investments (at cost) and loans, less reserves	89,635	330,144
Cash surrender value of insurance policies on lives of officers of certain subsidiaries	120,966	94,768
	$ 273,101	$ 714,636
Properties, at cost:		
Building, shop equipment, furniture and fixtures	$ 9,870,231	$ 9,386,436
Less—Accumulated depreciation	4,171,789	3,663,325
	$ 5,698,442	$ 5,723,111
Leaseholds and leasehold improvements, less amortization	5,455,519	4,885,782
Land	748,341	748,341
	$11,902,302	$11,357,234
Goodwill, Trade Names and Trade-Marks, at record value	1	1
	$43,226,903	$41,796,579

FNER & MARX

RY COMPANIES

BALANCE SHEET

30, 1951 and 1950

Liabilities

	1951	1950
Current Liabilities:		
Notes payable to banks	$ 6,500,000	$ 5,000,000
Sinking fund debentures payable May 31, 1952 and 1951 respectively	580,000	635,000
Accounts payable—		
Trade	1,926,447	2,409,259
Other	828,272	790,005
Accrued salaries, wages and rents	832,520	1,017,144
Accrued taxes (other than taxes on income)	364,531	365,308
Provision for federal and state taxes on income	1,539,955	1,280,207
Total current liabilities	$12,571,725	$11,496,923
Funded Debt:		
3½% sinking fund debentures, due June 1, 1963	$ 6,475,000	$ 7,110,000
Less—Amount payable, in 1952 and 1951 respectively, included in current liabilities	580,000	635,000
	$ 5,895,000	$ 6,475,000
Advance by lessor toward leasehold improvements by subsidiary company payable monthly over lease expiring in 1977	244,240	249,936
	$ 6,139,240	$ 6,724,936
Minority Stockholders' Interest	$ 128,570	$ 65,126
Capital Stock and Surplus:		
Common stock—authorized and issued—375,000 shares par value $10.00 each	$ 3,750,000	$ 3,750,000
Surplus—		
Capital surplus (1951 deduction of $135,990 resulting from repurchase of company's common stock)	1,513,958	1,649,948
Earned surplus—		
Appropriated for contingencies	700,000	700,000
Unappropriated per accompanying statement	18,899,967	17,840,873
	$24,863,925	$23,940,821
Deduct—Treasury stock—24,900½ and 20,367½ shares, 1951 and 1950 respectively	476,557	431,227
	$24,387,368	$23,509,594
	$43,226,903	$41,796,579

See Notes to Financial Statements

HART SCHAFFNER & MARX
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF PROFIT AND LOSS AND EARNED SURPLUS

For the fiscal years ended November 30, 1951 and 1950

PROFIT AND LOSS

	1951	1950
Net sales and operating revenues	$61,672,439	$59,257,388
Dividends from sundry investments, interest and other income	126,564	114,123
Total	$61,799,003	$59,371,511
Less:		
Cost of goods sold and occupancy expenses (exclusive of depreciation and amortization)	$44,375,367	$43,173,754
Depreciation and amortization	870,903	714,530
Selling, general and administrative expenses	12,840,961	12,181,318
Interest paid	426,231	368,122
Sundry income deductions	16,297	13,343
Minority interest in net profits of subsidiaries	3,587	11,102
	$58,533,346	$56,462,169
Profit before deducting income taxes	$ 3,265,657	$ 2,909,342
Provision for taxes on income—Federal Income Taxes	$ 1,721,211	$ 1,217,049
—State Income Taxes	25,694	44,560
	$ 1,746,905	$ 1,261,609
Profit for the year	$ 1,518,752	$ 1,647,733
Adjustments in respect of building and leasehold improvements, depreciation and amortization, federal income taxes, etc., applicable to prior years (Net)	—	230,417
Amount transferred to earned surplus	$ 1,518,752	$ 1,878,150

UNAPPROPRIATED EARNED SURPLUS

	1951	1950
Balance at beginning of year	$17,840,873	$16,742,915
Undistributed earnings at March 31, 1951 of subsidiary not previously consolidated, applicable to shares owned at that date	107,754	—
Amount transferred from consolidated statement of profit and loss	1,518,752	1,878,150
	$19,467,379	$18,621,065
Dividends of $1.60 per share in 1951 and $2.20 in 1950	567,412	780,192
Balance at end of year	$18,899,967	$17,840,873

See Notes to Financial Statements

REPORT OF ACCOUNTANTS

To the Board of Directors of

Hart Schaffner & Marx:

In our opinion, the accompanying financial statements present fairly the consolidated position of Hart Schaffner & Marx and its subsidiaries at November 30, 1951, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. This opinion is based on an examination of the statements which was made in accordance with generally accepted auditing standards and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

PRICE WATERHOUSE & CO.

CHICAGO, ILLINOIS

January 21, 1952

NOTES TO FINANCIAL STATEMENTS

Under the provision of the debenture issue, $15,007,309 of the total consolidated earned surplus at November 30, 1951, is restricted as to payment of dividends.

The unpaid cost with respect to past service benefits under the retirement annuity plan for employees established in 1946 amounted to approximately $453,000 at November 30, 1951.

As at November 30, 1951, the Company and its subsidiaries occupied properties under sixty-six lease agreements with terms expiring from one to forty-two years after that date, and requiring a minimum rental payment of approximately $1,435,000 for 1952. Certain of the leases provide for the payment of taxes by the lessees and additional rental based upon a percentage of sales in excess of stipulated minimums.

FIVE YEAR SUMMARY

	1951	1950	1949	1948	1947
Net Sales and Operating Revenue	$61,672,439	$59,257,388	$57,773,088	$63,037,888	$56,527,917
Federal Income Taxes	1,721,211	1,217,049	975,298	2,025,253	2,307,804
Per Share	4.92	3.43	2.75	5.71	6.51
Net Earnings After Federal Income Taxes	1,518,752	1,647,733	1,638,746	2,927,852	3,284,384
Per Share	4.34	4.65	4.62	8.26	9.26
Dividends Paid in Cash	567,412	780,192	851,118	851,118	855,678
Per Share	1.60	2.20	2.40	2.40	2.40
Earnings Retained in the Business	951,340	867,541	787,628	2,076,734	2,428,706
Property Additions*	1,290,444	2,098,111	2,419,324	3,476,655	3,203,618
Current Assets	31,051,499	29,724,708	24,786,344	28,033,290	22,121,816
Current Liabilities	12,571,725	11,496,923	5,852,690	10,088,636	9,090,219
Net Working Capital	18,479,774	18,227,785	‡18,933,654	†17,944,654	13,031,597
Fixed Assets—Less Depreciation and Amortization	11,902,302	11,357,234	10,032,562	8,385,328	5,547,903
Net Worth	24,387,368	23,509,594	22,620,580	21,832,952	19,756,218
Per Share	69.66	66.29	63.79	61.57	55.71

*Retail store leasehold improvements and equipment—Real Estate—Factory Building and manufacturing equipment.

†In 1948 the company issued $6,000,000 of 3½% sinking fund debentures, the proceeds from which (less $400,000 payable in 1949 and included in current liabilities of 1948) were added to working capital.

‡During 1949 the company issued an additional $2,000,000 of 3½% sinking fund debentures, the proceeds from which (less $485,000 payable in 1950 which is included in current liabilities of 1949) were added to working capital.